



House of Representatives

General Assembly

File No. 50

January Session, 2007

Substitute House Bill No. 7060

House of Representatives, March 13, 2007

The Committee on Insurance and Real Estate reported through REP. O'CONNOR of the 35th Dist., Chairperson of the Committee on the part of the House, that the substitute bill ought to pass.

AN ACT EXPANDING AFFORDABLE HEALTH CARE OPPORTUNITIES FOR SMALL BUSINESSES.

Be it enacted by the Senate and House of Representatives in General Assembly convened:

1 Section 1. Section 12-202a of the general statutes is repealed and the
2 following is substituted in lieu thereof (*Effective July 1, 2007, and*
3 *applicable to income years commencing on or after January 1, 2007*):

4 (a) Each health care center, as defined in section 38a-175, that is
5 governed by sections 38a-175 to 38a-192, inclusive, shall pay a tax to
6 the Commissioner of Revenue Services for the calendar year
7 commencing on January 1, 1995, and annually thereafter, at the rate of
8 one and three-quarters per cent of the total net direct subscriber
9 charges received by such health care center during each such calendar
10 year on any new or renewal contract or policy approved by the
11 Insurance Commissioner under section 38a-183. Such payment shall be
12 in addition to any other payment required under section 38a-48.

13 (b) Notwithstanding the provisions of subsection (a) of this section,
14 the tax shall not apply to:

15 (1) Any new or renewal contract or policy entered into with the state
16 on or after July 1, 1997, to provide health care coverage to state
17 employees, retirees and their dependents;

18 (2) Any subscriber charges received from the federal government to
19 provide coverage for Medicare patients;

20 (3) Any subscriber charges received under a contract or policy
21 entered into with the state to provide health care coverage to Medicaid
22 recipients under the Medicaid managed care program established
23 pursuant to section 17b-28, which charges are attributable to a period
24 on or after January 1, 1998;

25 (4) Any new or renewal contract or policy entered into with the state
26 on or after April 1, 1998, to provide health care coverage to eligible
27 beneficiaries under the HUSKY Medicaid Plan Part A, HUSKY Part B,
28 or the HUSKY Plus programs, each as defined in section 17b-290;

29 (5) Any new or renewal contract or policy entered into with the state
30 on or after April 1, 1998, to provide health care coverage to recipients
31 of state-administered general assistance pursuant to section 17b-192;

32 (6) Any new or renewal contract or policy entered into with the state
33 on or after February 1, 2000, to provide health care coverage to retired
34 teachers, spouses or surviving spouses covered by plans offered by the
35 state teachers' retirement system;

36 (7) Any new or renewal contract or policy entered into on or after
37 July 1, 2001, to provide health care coverage to employees of a
38 municipality and their dependents under a plan procured pursuant to
39 section 5-259;

40 (8) Any new or renewal contract or policy entered into on or after
41 July 1, 2001, to provide health care coverage to employees of nonprofit
42 organizations and their dependents under a plan procured pursuant to

43 section 5-259;

44 (9) Any new or renewal contract or policy entered into on or after
45 July 1, 2003, to provide health care coverage to individuals eligible for
46 a health coverage tax credit and their dependents under a plan
47 procured pursuant to section 5-259;

48 (10) Any new or renewal contract or policy entered into on or after
49 July 1, 2005, to provide health care coverage to employees of
50 community action agencies and their dependents under a plan
51 procured pursuant to section 5-259; [or]

52 (11) Any new or renewal contract or policy entered into on or after
53 July 1, 2005, to provide health care coverage to retired members and
54 their dependents under a plan procured pursuant to section 5-259; or

55 (12) Any new or renewal contract or policy entered into on or after
56 July 1, 2007, to provide health care coverage to small employers under
57 a plan procured pursuant to section 38a-567, as amended by this act.

58 (c) The provisions of this chapter pertaining to the filing of returns,
59 declarations, installment payments, assessments and collection of
60 taxes, penalties, administrative hearings and appeals imposed on
61 domestic insurance companies shall apply with respect to the charge
62 imposed under this section.

63 Sec. 2. Subdivision (22) of section 38a-567 of the general statutes is
64 repealed and the following is substituted in lieu thereof (*Effective from*
65 *passage*):

66 (22) With respect to plans or arrangements issued pursuant to
67 subsection (i) of section 5-259, or by an association group plan, at the
68 option of the Comptroller or the administrator of the association group
69 plan, the premium rates charged or offered to small employers
70 purchasing health insurance shall not be subject to this section,
71 provided (A) the plan or plans offered or issued cover such small
72 employers as a single entity and cover not less than [ten] seven
73 thousand five hundred eligible individuals [on the date issued]

74 regardless of the date on which such small employers became a
75 participant in the plan or plans, (B) each small employer is charged or
76 offered the same effective premium rate with respect to each eligible
77 individual and dependent, and (C) the plan or plans are written on a
78 guaranteed issue basis. For purposes of this subdivision, the term
79 "effective premium rate" means that the premium rate charged may be
80 adjusted based upon the date the small employer becomes a
81 participant in the plan or plans.

| | | |
|---|--|-------------|
| This act shall take effect as follows and shall amend the following sections: | | |
| Section 1 | <i>July 1, 2007, and applicable to income years commencing on or after January 1, 2007</i> | 12-202a |
| Sec. 2 | <i>from passage</i> | 38a-567(22) |

INS*Joint Favorable Subst.*

The following fiscal impact statement and bill analysis are prepared for the benefit of members of the General Assembly, solely for the purpose of information, summarization, and explanation, and do not represent the intent of the General Assembly or either chamber thereof for any purpose:

OFA Fiscal Note**State Impact:**

| Agency Affected | Fund-Effect | FY 08 \$ | FY 09 \$ |
|--------------------------------|-------------------|--------------|--------------|
| Department of Revenue Services | GF - Revenue Loss | 27.5 million | 29.0 million |

Note: GF=General Fund

Municipal Impact: None

Explanation

The bill is anticipated to result in a revenue loss to the Insurance Premiums Tax of \$27.5 million in FY 08 and \$29.0 million¹ in FY 09 from exempting policies procured through the Connecticut Small Employer Health Reinsurance Pool (CSEHRP).

The Out Years**State Impact:**

| Agency Affected | Fund-Effect | FY 10 \$ | FY 11 \$ | FY 12 \$ |
|--------------------------------|-------------------|--------------|--------------|--------------|
| Department of Revenue Services | GF - Revenue Loss | 30.3 million | 31.8 million | 33.4 million |

Note: GF=General Fund

Municipal Impact: None

¹ The estimates were developed using 2005 CSEHRP premium data provided by the Insurance Department.

OLR Bill Analysis**sHB 7060*****AN ACT EXPANDING AFFORDABLE HEALTH CARE
OPPORTUNITIES FOR SMALL BUSINESSES*****SUMMARY:**

This bill exempts from the 1.75% premium tax paid by HMOs any new or renewal contract or policy entered into after June 30, 2007 with a small employer that is in compliance with statutory requirements for such plans.

The bill also makes several changes to the requirements under which small employer groups purchasing health insurance through the Municipal Employee Health Insurance Program (MEHIP) or an association may be exempted from the rating requirements that apply to small employers (adjusted community rating), at the comptroller's or association group plan administrator's option.

EFFECTIVE DATE: Upon passage, except for the tax exemption, which is effective July 1, 2007 and is applicable to income years beginning on and after January 1, 2007.

RATING LAW EXEMPTION CRITERIA

Current law requires that for MEHIP or an association to consider small employer groups as a single group so as to be exempted from the small employer rating requirements, (1) the plans offered or issued must insure at least 10,000 people, (2) each small employer must be offered the same premium rates for each eligible person (pure community rating), and (3) the plans must be issued if requested (i.e., written on a guaranteed issue basis).

The bill changes the first two requirements. It reduces the number of covered people needed from 10,000 to 7,500. It also states that the

7,500 headcount is determined regardless of when the small employer groups joined the plans, instead of on the date the plan is issued. Thus, not all the small employer groups or covered people have to join MEHIP or the association plan at the same time.

Instead of requiring the “same premium rate,” the bill requires that each small employer to be offered the “same effective premium rate,” allowing the rate to be adjusted based on the date the small employer group joins the plan.

BACKGROUND

Small Employer

A “small employer” is an employer with one to 50 employees, including a self-employed person, other than a private school obtaining health insurance through an association of private schools and the following groups participating in MEHIP: (1) municipality; (2) nonprofit organization, unless the comptroller and the Office of Policy and Management secretary make a written request to the insurance commissioner to treat it as a small employer; (3) personal care assistants association; and (4) community action agency (CGS § 38a-564(4)).

Premium Tax

By law, HMOs, domestic insurers, and foreign insurers (those organized in another state) must pay an annual premium tax of 1.75% per contract or policy sold in Connecticut. Numerous exemptions to the HMO premium tax have been enacted, including contracts covering state employees; Medicare and Medicaid recipients; retired teachers; individuals eligible for a health coverage tax credit; and municipal employees and retirees, nonprofit employees, and community action agency employees covered through MEHIP.

MEHIP

MEHIP is a group health insurance program for municipal employees established by law and sponsored by the Office of the Comptroller. Subsequent laws expanded MEHIP eligibility to (1)

nonprofit community action agencies, (2) state-contracted nonprofit corporations, (3) regional emergency telecommunications centers and tourism districts, and (4) small employers.

Community Rating—Pure and Adjusted

Pure community rating is the process of developing a uniform rate for all enrollees. An adjusted community rate modifies a community rate by specific case characteristics. “Case characteristics” are demographic or other objective characteristics of a small employer group’s employees, including age, gender, family composition, location, group size, administrative cost savings resulting from the administration of an association group plan or a plan written through MEHIP, and industry classification.

Related Bill

HB 7062 exempts all health insurance plans sold to municipalities from the 1.75% premium tax paid by domestic (Connecticut) insurance companies and HMOs.

COMMITTEE ACTION

Insurance and Real Estate Committee

Joint Favorable Substitute

Yea 16 Nay 0 (02/27/2007)